

Memorandum

Date: September 3, 2004

REPLY TO

ATTN OF: IG-34 (A04SC018)

Audit Report No.: OAS-L-04-20

SUBJECT: Audit of Selected Financial Assistance Awards in the Office of Science

TO: Principal Deputy Director, Office of Science, SC-3

The purpose of this report is to inform you of the results of our audit of Selected Financial Assistance Awards in the Office of Science. The audit was initiated in March 2004 and fieldwork was conducted through July 2004 at the Department of Energy (Department) Office of Science (Science) at Headquarters and the Chicago Office, formerly the Chicago Operations Office. The audit methodology is described in an attachment to this report.

INTRODUCTION AND OBJECTIVE

Science is the largest supporter of basic research in the physical sciences in the United States and provides more than 40 percent of total funding for this area of vital national importance. It oversees, and is the principal Federal funding agency of, the nation's research programs in high energy physics, nuclear physics, and fusion energy sciences.

Science's significant investment in basic research is largely funded by financial assistance agreements which include grants and cooperative agreements. Currently, Science has over 2,900 active financial assistance awards totaling over \$4 billion dollars in obligated funds. Due to the importance of the Science mission, and its significant investment in financial assistance awards, we initiated this audit to determine whether Science was adequately managing its financial assistance awards.

CONCLUSION AND OBSERVATIONS

Nothing significant came to our attention to indicate that Science was not adequately managing the financial assistance awards that we reviewed. However, Science could improve its monitoring of financial assistance awards by providing more detailed information in its statements of work and better documenting its monitoring activities.

Statements of Work

Science's statements of work were broadly written and did not establish milestones and/or schedules, thereby limiting the effectiveness of monitoring designed to ensure recipients

were meeting expectations and properly using funds. Program managers write broad statements of work to allow for more flexibility in managing projects; however, we believe that this makes it more difficult to evaluate the status of the projects, determine if expectations are being met, or ensure that funds are being properly used. For example, the statements of work for the West Virginia University National Education and Technology Center project does not stipulate any milestones and/or schedules pertaining to the phases of constructing the facility. Therefore, program managers cannot compare the statement of work to the progress reports to ensure that the project is progressing as anticipated.

Monitoring Activities

Science could improve documenting its financial assistance monitoring activities. Although we were able to reconstruct monitoring activities from multiple sources and locations, the official project files did not always provide a clear depiction of the scope of monitoring activities. The official project files were missing documents related to these key areas:

- **Periodic Contact:** Program managers stated that they were in regular contact with the recipient, but during our review we found little evidence of this contact in the project files. Thoroughly documenting monitoring activities in the official project files is essential to continued operations in the event that employees depart, responsibility is transferred, or reorganizations occur.
- **Financial reports:** According to the Chicago Office Financial Report tracking sheet, only 8 of the 13 recipients in our sample submitted a Federal Cash Transaction report as required. This report shows how much cash the recipient has drawn down in a specific time period and also shows how much cash the recipient has on hand. This information is useful in determining how a project is proceeding compared to the amount spent to date on the project.
- **Progress reports:** Although a required deliverable, only 2 of 10 construction grant files had progress reports documented for the entire project period, and many of the progress reports that were submitted were sporadic. Furthermore, there appeared to be confusion regarding the length of time that project managers should keep progress reports. Progress reports are a key mechanism for monitoring activities as they provide the schedules and/or milestones for the projects. Therefore, not only is the completeness of the official project files being sacrificed but also monitoring appears to be inadequate when the progress reports are not documented.
- **Single Audit Act (A-133) Audits:** We found that various recipients had recent findings from A-133 audits that were not in the files. The A-133 audits are an effective way to identify deficiencies in recipient's controls that ensure Federal funds are

accounted for correctly and are properly used. Despite the importance of these audits, we were told that contracting officers do not look at any A-133 audits until close-out unless they are informed by a third party that a finding related to the Department's funding had been issued.

Prior Findings

As noted in previous audits, the addition of adequate milestones and/or schedules to the statements of work and thoroughly documenting monitoring activities in the official project files should increase chances of project success. We have recently found similar management weaknesses in other Department projects that did not meet their overall objectives. Specifically, in our report on *The McNeil Biomass Project* (DOE/IG-0630, December 2003) we noted that the Department continued to fund the project despite little to no progress because it did not ensure objectives and milestones were appropriate. In addition, in our report *Management Controls over the WERC Project* (OAS-M-04-03, May 2004) we found that the project was not accomplishing its goals and was reimbursed for inappropriate costs because project managers had been obtaining only limited information regarding project activities.

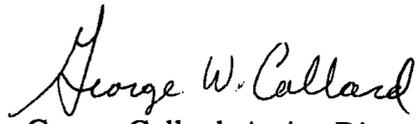
SUGGESTED ACTIONS:

In light of these concerns, the Principal Deputy Director, Office of Science, should consider taking the following actions:

- Require that all statements of work, regardless of project funding source, disclose milestones and/or schedules for all projects; and,
- Ensure completeness of project files by specifying what the official project files should contain and how long the information should be retained.

The suggestions noted above were discussed with officials from Science and the Chicago Office on July 29, 2004. Officials stated they would consider obtaining schedule and/or milestone information from recipients of new awards. Further, they are formulating procedures to help standardize the contents of project files. These officials stated that, based on the results of our report, our suggestions may be incorporated into the procedures. Since no formal recommendations are being made in this letter report, a formal response is not required.

We appreciate the cooperation of your staff during our review. If you have any questions regarding our audit, please contact Stacy Bleigh (301) 903-8897 or Bill Lubecke at (720) 962-7546.


George Collard, Acting Director
Science, Energy, Technology,
and Financial Audits
Office of Audit Services
Office of Inspector General

Attachment

cc: Manager, Chicago Office
Audit Liaison, Office of Science, SC-67
Audit Liaison, Chicago Office
Team Leader, Audit Liaison Team, ME-100

SCOPE AND METHODOLOGY

The audit was performed between March 2004 and July 2004 at the Department of Energy (Department) Office of Science (Science) at Headquarters, and the Chicago Office. To accomplish the audit objective, we:

- Held discussions with contracting officers, program managers, and other officials from Science at Headquarters and the Chicago Office in order to gain an understanding of the financial assistance award process, roles and responsibilities, history of the projects, the status of the projects, and any problems that the projects may have experienced;
- Obtained and reviewed the project files at Headquarters and the Chicago Office for the 6 research and 10 construction projects that we selected for review;
- Visited the sites of two recipients, West Virginia University and New Mexico Highlands University, to discuss the projects with key personnel and to physically observe the progress of the projects;
- Reviewed laws and regulations and prior audit reports related to the audit objective; and,
- Reviewed performance related information to determine compliance with the Government Performance and Results Act of 1993.

The audit was performed in accordance with generally accepted Government auditing standards for performance audits and included tests of internal controls and compliance with laws and regulations to the extent necessary to satisfy the audit objective. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our audit. We did not rely on computer processed data, therefore we did not assess data reliability. An exit conference was held on July 29, 2004.

Memorandum

DATE: SEP 10 2004

DATE:

REPLY TO

ATTN OF: IG-34 (A04SC018)

SUBJECT: Final Report Package for "Audit of Selected Financial Assistance Awards in the Office of Science
Audit Report No.: OAS-L-04-20

TO: Rickey R. Hass, Assistant Inspector General for Audit Operations

Attached is the required final report package on the subject special report. The pertinent details are:

1. Actual Staff days: 121

Actual Elapsed days: 157

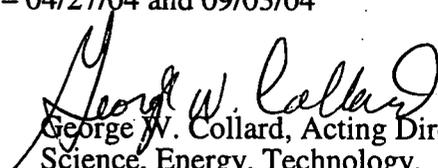
2. Names of OIG and/or contractor audit staff:

Assistant Director: Kevin Majane
Team Leader: William Lubecke
Auditor-in-Charge: Stacy Bleigh
Audit Staff: Michael Carney

3. Coordination with Investigations and Inspections:

Investigations: Yvette Milam – 04/27/04 and 09/03/04

Inspections: Geoff Gray – 04/27/04 and 09/03/04


George W. Collard, Acting Director
Science, Energy, Technology,
and Financial Audits
Office of Audit Services
Office of Inspector General

Attachment

1. Final Report
2. Monetary Impact Report
3. Audit Project Summary Report
4. Audit Database Information Sheet

MONETARY IMPACT OF REPORT NO.: OAS-L-04-20

1. Title of Audit: Selected Financial Assistance Awards in the Office of Science

2. Division: Science, Energy, Technology and Financial Audits

3. Project No.: A0SC018

4. Type of Audit:

Financial: _____ Performance: X
 Financial Statement _____ Economy and Efficiency X
 Financial Related _____ Program Results _____
 Other (specify type): _____

5.

FINDING		COST AVOIDANCE		QUESTIONED COSTS				MGT. POSITION	POTENTIAL BUDGET IMPACT
(A)	(B) Title	(C) One Time	(D) Recurring Amount Per Year	(E) Questioned	(F) Unsup-ported	(G) Unre-solved	(H) Total (E)+(F)+(G)	(I) C=Concur N=Noncon U=Undec	(J) Y=Yes N=No
1.	No findings related to this report.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
TOTALS--ALL FINDINGS									

6. Remarks:

7. Contractor: N/A

8. Contract No.: N/A

9. Task Order No.: N/A

10. Approvals:

Division Director/Date: J.W. Callow

Technical Advisor & Date: Shu

AUDIT DATABASE INFORMATION SHEET

1. Project No.: A04SC018
2. Title: Selected Financial Assistance Awards in the Office of Science
3. Report No./Date: OAS-L-04-20, September 3, 2004
4. Management Challenge Area:
5. Presidential Mgmt Initiative:
6. Secretary Priority/Initiative:
7. Program Code:
8. Location/Sites: Headquarters and Chicago Office
9. Finding Summary: Nothing significant came to our attention to indicate that Science was not adequately managing the financial assistance awards that we reviewed. However, Science could improve its monitoring of financial assistance awards by providing more detailed information in its statements of work and better documenting its monitoring activities. We suggested that the Principal Deputy Director, Office of Science, consider taking the following actions: (1) require that all statements of work, regardless of project funding source, disclose milestones and/or schedules for all projects, and (2) ensure completeness of project files by specifying what the official project files should contain and how long the information should be retained.
10. Keywords:
 - Basic Research
 - Chicago Office
 - Chicago Operations Office
 - Construction Projects
 - Cooperative Agreements
 - Financial Assistance Agreements
 - Financial Assistance Awards
 - Grants
 - Milestones
 - Monitoring Activities
 - New Mexico Highlands University
 - Project Management
 - Research Projects
 - Single Audit Act (A-133) Audits
 - West Virginia University